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**FISCAL IMPACT STATEMENT**

**LS 7128**

**BILL NUMBER:** HB 1360

**NOTE PREPARED:** Jan 9, 2006

**BILL AMENDED:**

**SUBJECT:** Senior Citizen Property Tax Credit.

**FIRST AUTHOR:** Rep. Brown C

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides a property tax credit payable from the Property Tax Replacement Fund to a homestead owner who is at least 65 years of age and whose adjusted gross income is less than \$30,000.

**Effective Date:** July 1, 2006.

**Summary of Net State Impact:** The net cost of the property tax credit to the state (property tax credit cost less income tax gain) is estimated to be \$24.5 M for FY 2008 (partial year), \$72.3 M in FY 2009, and \$74.2 M in FY 2010.

**Explanation of State Expenditures:** Beginning with property taxes payable in CY 2008, this proposal would provide a property tax credit to homeowners who are at least 65 years old with Indiana Adjusted Gross Income (AGI) under \$30,000.

The credit would equal one-half of the net tax due, multiplied by a sliding percentage based on income. The credit formula would be as follows: Credit = Net Property Tax \* ½ \* (1 - AGI/30,000)

For example, a qualifying taxpayer with a \$15,000 AGI would receive a credit equal to 25% of the taxpayer's net tax bill [Net Tax \* ½ \* (1 - 15,000AGI / 30,000)]

Income tax return data from 2003 suggests that there could be about 215,900 eligible taxpayers statewide. The cost of the credit is estimated at \$73.4 M in CY 2008.

These estimates are based on simulations using Individual AGI Tax return information for taxpayers claiming: (1) the AGI deduction for property taxes paid by homeowner's or the AGI Tax credit for property taxes paid by certain Lake County homeowners; and (2) the income exemption for the elderly or blind. AGI amounts for 2006 and 2008 are estimated based on recent actual and forecast growth rates in Nonfarm Indiana Personal Income; and property tax amounts are estimated for 2008 based on estimated AV and levy growth rates. The estimate also assumes that all those who filed for the over-65 property tax deduction will file for this credit as soon as it becomes available.

This credit would be paid from the Property Tax Replacement Fund (PTRF). Expenditures from the PTRF are subject to appropriation. No appropriation has been made for years after FY 2007. Under current law, if the appropriation is insufficient to fully fund PTRC and homestead credits, the 60% school general fund PTRC, 20% real property PTRC, and the 20% Homestead Credit percentages must be proportionately reduced.

**Explanation of State Revenues:** *Individual AGI Tax:* Application of the property tax credit is estimated to increase revenue from the Individual AGI Tax by about \$1.8 M annually, with the impact beginning in FY 2009.

*Background:* The reduced net property tax (after the credit in this bill) would reduce amounts claimed by qualifying taxpayers for: (1) the AGI deduction for property taxes paid by homeowner's; and (2) the AGI Tax credit for property taxes paid by certain Lake County homeowners. Under current statute, a homeowner is entitled to an AGI deduction of up to \$2,500 for property taxes paid during the tax year on the home. In addition, a homeowner in Lake County whose earned income is less than \$18,600 is entitled to an AGI Tax credit equal to the lesser of \$300 or the amount of property taxes paid on the home. Since the property tax credit would be effective beginning with Pay 2008 property taxes, the impact on Individual AGI Tax revenue would likely begin in FY 2009. Eighty-six percent of the revenue from the Individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

**Explanation of Local Expenditures:** Local governments would be responsible for printing and processing the claim forms for the credit. These would create an indeterminable cost increase for the County Auditors' offices. County Auditors are funded from the county General Fund.

**Explanation of Local Revenues:** *Property Tax Credit:* There would be no impact on local tax revenues. Local units of government would continue to receive the same total tax revenues, regardless of the source.

*Local Option Income Taxes:* Because the application of the property tax credit proposed in the bill would serve to increase taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience a minimal increase in revenue from these taxes.

**State Agencies Affected:** Department of Local Government Finance, Department of State Revenue.

**Local Agencies Affected:** County Auditors.

**Information Sources:** OFMA Income Tax Database, Tax Year 2003; Local Government Database.

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